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Dear Sir / Madam,

Scrip Code: 502219 **Symbol: BOROSIL** **Series: EQ**

Sub: Transcript of Institutional Investors and Analysts Conference Call

We enclose transcript of conference call with Institutional Investors and Analysts which was held on February 07, 2019.

You are requested to take the same on records.

Thanking you.

Yours faithfully,
For Borosil Glass Works Limited

Gitayadav

Gita Yadav
Company Secretary & Compliance Officer
ACS23280

Encl: as above

Transcript

Conference Call of Borosil Glass Works Limited

Event Date / Time : 7th Feb 2019 4:45 PM IST

Presentation Session

Moderator: Good evening ladies and gentlemen, I am Pavithra, moderator for the conference call. Welcome to 3Q FY2019 earnings conference call of Borosil Glass Works Limited hosted by B&K Securities. At this moment, all participants are in listen-only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the floor to Mr. Nirav. Thank you and over to you sir.

Nirav: Thank you Pavithra. Hello everybody and welcome to the conference call of Borosil Glass Works Limited. We are very thankful to the management for giving us the opportunity for hosting the conference call. From the management's side, we have Mr. Shreevar Kheruka, Managing Director and CEO of the company, Mr. Swadhin Padia, Chief Financial Officer. May I please request the management to give some opening remarks pertaining to 3Q and nine-month FY19 performance, after which we can open the floor for Q&A. Over to you sir.

Shreevar Kheruka: Thanks very much. Greetings and everybody. This is Shreevar Kheruka. I am glad to be talking to the community again, along with our CFO, Swadhin Padia. Our board met earlier today and approved the financial results for the third quarters ended December 2018. We have sent our results and presentation to the stock exchanges and also uploaded on our company website. Unfortunately, this time, because of other commitments, the time gap between our board meeting and this call was a bit short, so I apologize in advance for that. But I will run you briefly through the highlights of our performance, and then open it up to questions.

On the revenue front, we have had a very good year so far. During the three quarters ended December, the business has recorded a net revenue of INR 420 crores, which is a growth of almost 35% over the same period in the previous year. This includes some benefit from the adoption of Ind-AS 115. Even without this benefit, our growth is almost 33%. The momentum that we had set in the first half of the year continued into the third quarter, which is the Diwali quarter. The consumer products business has achieved a revenue of INR 281 crores, which is a growth of 45% over the corresponding nine months of last year. Just to clarify, this includes both the Borosil brand as well as Larah. Our key thrust in the subsegments of kitchen and on-the-go storage and serving ware, are receiving a very encouraging market response. Products under the Borosil brand grew by almost 44%, and Larah would have grown just slightly more than that. The company had identified a shift from plastic to glass and steel products for storage few years ago, and it is now benefiting from this tailwind. Its new product introductions, including tiffin boxes, clip and store containers and jars are all witnessing robust consumer adoption. The Hydra range of stainless-steel flasks and insulated steel lunch boxes has also received a very encouraging response. Borosil is facilitating the shift away from plastic with high quality products designed for both aesthetics and functionality.

The company has also launched a range of kitchen appliances, which are positioned at the premium end of the market. The range is thoughtfully designed with a high assurance of quality and we are particularly careful about this aspect when we launch anything under the Borosil brand. While our market share in appliances is still very modest, we believe that this can become a meaningful business line in the years to come with a range of differentiated products.

Serving ware is a key thrust category for the company, for the medium term. When we acquired Hopewell in 2016, it allowed us to participate in the serving ware category with our brand Larah. During this year, to-date, Larah has achieved a revenue of INR 117 crores, a growth of 48% over the same period in the previous year. The Opalware category is expected to continue to show a healthy growth as the product has inherently superior features, when compared to alternatives like melamine, bone china, or steel. And even after having superior features, it is yet cheaper, thus making it the serving ware of choice.

With the installation of our new furnace and production lines last year, Larah has improved its product quality, which is now benchmarked with the best internationally. The products have improved strength and we have built the ability to turn out a larger variety of shapes and sizes. That has facilitated us to launch a few new categories, including one which is more premium than the existing range. The company has envisaged a multi-year runway of growth, both in the Opal category of serving as well as in its storage products. The penetration is still low, and at this stage the company will focus on increasing sales and reinforcing the equity of its brand.

During year-to-date Q3FY19, our investments in advertising and sales promotion were more than 8% of sales of our consumer products business. Given our view on the long-term opportunity, this is definitely higher than industry average.

As some of you know, Borosil became the hydration partner for the Indian Olympic Association. We are also an associate sponsor to the Haryana Steelers in the Pro Kabaddi League. Association with sports, gives the Borosil brand a connect to young consumers in the age group of 20 to 30 years, who can then become long term consumers of our brand.

The company is also strengthening its go-to-market execution. Our retail reach is about 12000 outlets and we expect to add about 800 to 1000 each year over the next few years. Besides general trade, the company is strengthening its presence across other channels, such as large format stores, CSD, B2B, and e-commerce. We have increased our focus on e-commerce, including setting up an exclusive e-commerce team and we are experiencing very positive results. Sales on the e-commerce channels are up almost 3x over last year.

Revenues in Borosil Scientific and Industrial Products division was INR 140 crores, a growth of 17% over the same period last year. If we remove the impact of INDAS 115, it is more pronounced in this case, the growth was 11.4%.

Klasspack achieved a revenue of INR 31.2 crores, which is a growth of 21.4% over the same period last year. Our acquisition thesis is playing out. Borosil has been able to use its existing customer relationships in the pharma industry to add to Klasspack's portfolio of customers. We are a clear #2 here and expect to continue to grow the business at a healthy pace.

The Labware division, which is the traditional glassware division, continues to show a steady growth. The instrumentation business under LabQuest has received an encouraging response and we have been churning out few new products in the last few months. Targeting import substitution, the company commenced operations at its product design, development and assembly-focused WhollyOwned Subsidiary, Borosil Technologies Limited, and expects to add to the LabQuest range. We have a team of about 15 people tasked with the responsibility of this product category development.

Coming to EBITDA margins, our EBITDA from operations at INR 64 crores grew by 32% over the same period last year. The growth in EBITDA margin lags topline growth, and this is in line with the strategy to invest higher amounts in Advertising and Sales Promotion. Our ASP expense is higher than in the same period last year by an absolute value of about INR 10 crores. Our EBITDA margins before ASP spend is 21.6% this year as compared to 20.4% in the corresponding period during the previous year on a like-to-like basis. During YTD Q3FY19, our EBITDA margin was 14.5%, even though the reported margin includes the impact of IND AS, which is higher 15.2%.

As you can see in our presentation, the EBITDA margin in Klasspack is low despite a strong topline growth. This is owing to higher wastages during production. We have added new customers in Klasspack and there have been new SKUs where the quality specifications have become more stringent. Delivering these products within the prescribed tolerance limits, has led to higher wastages in the short run. The company expects production to settle within acceptable wastage norms within the next few months and thereby improve its EBITDA percentage.

In Larah, the EBITDA margin was about 18%; we have improved the margin from low single digits in the first few quarters after acquiring the business in January 2016. This has come through a combination of improved efficiencies in the factory, better product and pricing mix, and scale benefits. We expect a further improvement in margins through improved logistics costs once our new central warehouse is operational in the next three to six months.

Borosil has registered a profit after tax of INR 42.1 crores, a growth of 10.6% over year-to-date last year.

In other developments, the process of restructuring of our group entities is in progress. This scheme has now further been approved by the BSE and NSE. The matter is now with NCLT and the hearing is scheduled next week on February 12th. We expect the process to be completed by the 1st quarter FY20 assuming the NCLT process is not delayed.

In the medium-term outlook, our outlook remains more or less the same as we have articulated in the past. For convenience, I am summarizing it again, with a few additional details.

The company has gathered great sales momentum this year and our teams are focusing their energies to accelerate volume growth. There is an expanding market in kitchen ware and serving ware, within which there is a shift towards glass. We estimate that the current market is 50% organized and similar unorganized, although in opal ware, the organized segment is higher. This provides an opportunity to upgrade consumers to better quality branded products. We expect that the organized market can double in the next three to four years. We see the opportunity as going beyond Opal and glass. It is a kitchen and on-the-go story with a current focus on storage and serving. Starting with a choice of these two segments has served us well. We estimate that the lunch box category, which includes steel, plastic, and glass could be about INR 1000 crores. Opal, as a category, has grown from scratch to about INR 600 crores over the last decade and continues to grow rapidly. For Borosil, storage is already larger than our legacy microwavable businesses. Borosil consumer products business sees a runway for growth over the next few years in these two segments and they could become over 70% of the business in the next three years.

While margins are important, and some of it will follow automatically with scale, we will currently prioritize volume growth over EBITDA margins. Penetration in our category is still low and there is an opportunity to expand the market. It is our belief that in consumer products, it is important to first achieve momentum and market penetration, and then focus on containing costs, to gain economies of scale. Of course, it will not be growth at all costs, the growth eventually has to be sustainable and profitable. It already is profitable, but we expect the margins will increase as scale benefits accrue.

We will continue to invest in brand building, so as to create a strong consumer pull for our brands. While new products and designs do give us an advantage in the near term, in the long run, only a strong brand will be a true differentiator.

Apart from mass media, we are also allocating a significant budget to social media. We are active on Facebook and Instagram, for instance. We are working on extending our sales channels. As I mentioned earlier, we expect to add about 800 to 1000 outlets every year for the next two to three years. There are much larger number of kitchen appliances-related outlets in the country. Our kitchen appliances range gives us access to these counters and an opportunity to introduce glassware products in them.

We are also listed across most major large format store chains. Our focus here is to increase depth by adding new products and SKUs. Borosil's new product development team plans to introduce several dozen new products and SKUs each year. Simultaneously, we will rationalize SKUs from the long tail. E-commerce channel has also begun showing increased traction and is helping us to penetrate beyond the top 50 cities.

In the scientific product business, while Lab glassware will continue slow and steady growth, the new avenues of exports, LabQuest and Klasspack will improve the growth trajectory. Exports has done quite well in the first nine months with a growth of more than 24% over the same period last year in lab products.

Our blended revenue CAGR is expected to move up to the high teens, while achieving higher numbers in the immediate term. EBITDA margins will expand as the company gets scale benefits and absorbs overhead on a larger base. We expect these margins to improve to between 15% and 20% over the next two to three years. This will, of course, have a corresponding impact on return on capital employed, which will also improve substantially.

In conclusion, our strategy of creating new avenues of growth for the company, both organic and inorganic, is playing out well. The Company is preparing to scale. My team and I are extremely energized with the momentum we have generated, and especially the performance of the Company in the year-to-date. We look forward into the future with a great deal of confidence. I am now happy to take any questions that you may ask.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again. Participants are kindly requested to restrict with two questions in the initial round.

First question comes from Mr. Prakash Kapadia from Anived PMS. Please go-ahead sir.

Prakash Kapadia: Thanks for taking my questions. I have two questions. You mentioned about our distribution reach being 12000 outlets, so would Opalware be reaching all these outlets, and how do we get these outlets more involved, because these are multi products, in terms of kitchen, home ware etc. So, what are we doing to get more awareness about Opalware and get them more involved. That's the first question. In your remarks, you also mentioned about, price points being favorable, so what is helping, is it the anti-dumping duty from China? In terms of price ladder, where are we in terms of melamine or bone china, what was the difference and what has brought this change?

Shreevar Kheruka: Okay. So, to answer your first question on the penetration of Opal in terms of the retail space, Larah our Opalware brand is not in all 12000 outlets. There would be some outlets, which are exclusively Opal and there would be others, which are exclusively glass, but I would say, Opal would be somewhere around 55% to 60%. So maybe 6000 to 7000 outlets would be where we have our Opal products present. Now, coming to how we can engage the retailers. So, obviously, one way to do that is, through schemes and quantity related discounts. So, when they achieve the year end target, they get a back-ended discount. It is like a volume discount that they get, but they get it only after they achieve the sale volume. So, that's the practice that we follow, and that definitely has given us traction because it is clearly evident that since we have taken over the Larah business, our turnover would be close to triple at the end of this year.

Moderator: Ladies and gentlemen, you are requested to stay online while the management team is connected back into the call. Thank you. We welcome the management team back on the call. Please go-ahead sir.

Shreevar Kheruka: Sorry, I apologize; some of the line got dropped. I was answering your question, should I continue answering the same question?

Moderator: Sir, please go-ahead Sir.

Shreevar Kheruka: Yeah, so we were talking about the pricing. So, we have not taken any price increases over there. As I mentioned earlier, our idea right now is to increase penetration of Opal across the country and make it attractive for consumers to switch from melamine and bone china to Opal, and also improve our capacity utilization in that respect.

Moderator: Thank you Sir. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad. The next question comes from Sharana Basappa, it is an individual investor. Please go-ahead sir.

Sharan: Hi Sir, this is Sharan from Bangalore. Sir, my question is, as a part of merger and demerger, will both Borosil and Gujarat Borosil be delisting or they will stay listed as the process is happening?

Shreevar Kheruka: In the scheme, Gujarat Borosil merges into Borosil, so Gujarat Borosil ceases to exist. Borosil (to be renamed Borosil Renewables) will continue to be listed on both BSE and NSE. Borosil's Consumer and Scientific business will be demerged into Borosil Limited, and that will also be listed on BSE and NSE. So, both the businesses will be listed. In the interim, when the Borosil business gets demerged into Borosil Limited, Borosil Limited will have to apply for listing, so in the interim, that business maybe unlisted for a couple of months, or two or three months, depending on the regulatory approval for that. But in the longer run, both businesses will be listed.

Sharan: Okay, there will be like, two-three months no Borosil will be listed in the market.

Shreevar Kheruka: No, Borosil Renewable will continue to be listed in the market, but the Borosil consumer and scientific business, which has demerged into Borosil Limited will take some time to list. It depends really on the regulatory framework and how long they take, but normally we have been told, it should take about two to three months for that.

Moderator: Thank you sir. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad. The next question comes from Mr. Hitesh Kumar from Axa Capital. Please go-ahead Sir.

Hitesh Kumar: Hi, thanks for the opportunity. Could you just share what has been the ad expenses for this quarter and for the nine months for this fiscal?

Shreevar Kheruka: No, I am sorry, I don't have that number, right at the top of my head. But, in general, I think, it would not be very different on a pro-rated basis. This quarter would be slightly higher because of Diwali, but not dramatically different.

Hitesh Kumar: Sure. Okay, I will get this figure later. But then, can you throw some light on what has been the growth in the consumer segment, if we exclude the microwaveable and the storage ware? So, outside that, basically just wanted to understand the new products that we have been launching for the last two years, what would be the growth this year for the new products?

Shreevar Kheruka: I can share that Larah has grown 48%, which is a new product, I guess. But outside of that we don't get data category-wise as you will appreciate it is competition sensitive.

Hitesh Kumar: Sure, okay. And, any specific reason why the interest cost is higher this quarter and if you could share what would be our gross debt at the end of December?

Shreevar Kheruka: Yeah, we had taken a small loan for working capital requirements for short-term and part of that have been already paid. I think, we are getting it at about, between 9% and 10%, in terms of our cost.

Hitesh Kumar: Got it. And net cash on books as on date?

Shreevar Kheruka: About 110 crores, roughly.

Moderator: Thank you sir. The next question comes from Mr. Rakesh Jain from Asit C. Mehta. Please go-ahead sir.

Rakesh Jain: Hi sir. Sir, actually I joined a little late on the call, so could you give me the quarterly numbers for Hopewell and Klasspack, in terms of sales and EBITDA?

Shreevar Kheruka: I can give you the year-to-date numbers, because the quarterly will not add any value, because of the timing mismatch between last year's Diwali and this year's Diwali, so it is better to look at the YTD numbers. Hopewell has done INR 117 crores compared to 79 crores in the year before, and Klasspack has done INR 31.2 crores year-to-date, compared to 25.7 crores the year before.

Rakesh Jain: Okay. And, what would be the EBITDA margins in this business for YTD?

Shreevar Kheruka: EBITDA margin for Hopewell are at 18% compared to roughly 7% in the previous year, so we have improved the EBITDA margins of Hopewell substantially. Klasspack's EBITDA has actually been under some stress, so Klasspack EBITDA which, I mentioned earlier in the call also, has reduced to only 4%, compared to maybe 12% or 13% last year. The main reason being that we have added some customers, which have much more stringent quality requirements. So, there is more wastage in the process, and now as we have added them, those issues are being resolved. In fact, in December & January we have already seen a much better yield in our process. So, these margins should rebound. These are A class customers, who we really wanted in our customer fold, and they are also helping us improve our plant operation. So, it is a short-term issue, which would resolve itself over the next few months.

Moderator: Thank you sir. The next question comes from Mr. Monica Joshi from Hornbill Capital. Please go-ahead ma'am.

Monica Joshi: Yeah, hi guys. Thank you for this opportunity. I just wanted to understand the volume growth and the value growth in the Opalware business. Would that be similar or would you have taken some pricing increases?

Shreevar Kheruka: It is very challenging to break it up in this way, because the mix of products changes dramatically or has changed dramatically. But, if I was to take a general view on it, I would say they are more or less similar. I think, the volume and value growth would be more or less similar. The value growth has been 48%, that is clear. Volume growth may have been 40% to 42% or in that range, because we have not really taken much in the way of price increase, in this segment.

Monica Joshi: And, would you think that the market growth has been as strong, or you would have gained market share then?

Shreevar Kheruka: It is a very good question. I guess, one of our competitors will be announcing results soon and we can judge after that. I would not have that information with any kind of accuracy, till I see that.

Monica Joshi: What would your guesstimate be, because we are seeing not just your big competitors, their results there are not out, but we have seen companies like Cello, for example, also being very active in this market; so, how much of the market we have been growing, because the more the number of people participate, the market really grows. So, that's really good for everybody here, right?

Shreevar Kheruka: The market has certainly grown. Market growth is very good, there is no doubt about that. That question is easy enough to answer, but our market share is very challenging to address, because I really don't know what our market share is. My gut is that we have definitely been taking some market share, but I don't want to say something, and then need to withdraw it a few days later. So, let's just wait and watch. But my gut is yeah, we are improving our market share.

Moderator: Thank you ma'am. The next question comes from Mr. Naitik Modi from OHM Portfolio. Please go-ahead sir.

Naitik Modi: Thank you for the opportunity. Sir, you said that currently you are focusing on a volume growth, so at level or at what size of sales would you want to focus on margin improvement, and primarily how much would that contribution be from the gross margin improvement?

Shreevar Kheruka: Sure. I think, there is a little bit of misunderstanding, in the sense that, when we say margin improvement, our gross margins are fine and we don't think that there is much scope there for dramatic improvement in gross margins. I was talking only from a net margin perspective including our costs of advertising. Our advertising, today is much higher - it is almost double as a percentage of sales, of what our larger competitors spend. I am talking of TTK Prestige, or other equivalent players. So, I think when our turnover crosses 500 to 600 crores, at that stage the advertising cost will not go up in the same ratio. Similarly, the overheads even after advertising whether it be the manpower costs or other overheads, all those will automatically rationalize. So, I don't see tremendous scope for gross margin improvement, but a lot more scope for net profit improvement at those levels.

The other area is, Hopewell. Today even after increasing our sales quite substantially, we are still not utilizing our entire capacity. So, we are running at about 75%, 80% capacity utilization. When that goes up to 90% plus, almost all of that extra capacity comes into the net margins. So, that's why the volume growth will definitely help in that end.

Naitik Modi: So, my next question on Hopewell, since we are running at about 80% utilization, when would you look at contributing to the next capex for that product category?

Shreevar Kheruka: I think we can achieve 100%, in fact our capacity can even over achieve 100%, because we have now figured out how to draw more from the same production line. So, I would say that decision on new capacity is still, maybe six to eight months out, in terms of when to take the decision. And we are working on alternate routes to expand our production with a smaller capex. So, probably by end of 2019 it will be clearer. Till then we will not be taking any decision.

Moderator: Thank you sir. The next question comes from Kiran Chheda from Chheda Investments. Please go ahead.

Kiran Chheda: Sir, the other expenses in the nine months ended '17 and '18 have gone up substantially from 51 crores to 73 crores. I would assume that most of it would be SG&A, but could you break up between selling expenses and admin expenses?

Shreevar Kheruka: Yeah. Most of it has come from selling. I already mentioned the advertising and sales promotion expenses which comprises majority of the increase. Obviously, as the sales turnover goes up, the freight and warehousing expenses go up with that. It will go up in the same ratio, so there is no concern there. The other component pertains to investments. The interest on the investments comes under other income, but if there is any impairment to the investments, it comes in other expenses. So, some percentage of other expenses increase is because we have had some impairments, which is a market-related impairment on those investments, which may even change in the next quarter. So, those are the main reasons that other expenses have gone up. I would say, except for advertising, which is a strategic spend, all other expenses are more or less, within control. Also, there has been some amount of legal and professional fees because of the merger and demerger scheme that has led to some costs, which are one-time costs.

Kiran Chheda: Could you quantify the ad expenses for both the periods?

Shreevar Kheruka: As I already mentioned earlier, our expenses in ad and sales promotion is about INR 10 crores higher than last year.

Kiran Chheda: Alright, thank you.

Moderator: Thank you sir. The next question comes from Mr. Prakash Kapadia from Anived PMS. Please go ahead sir.

Prakash Kapadia: Yeah, can you give me the net revenues EBITDA and net income for the Larah division, because the presentation is not yet downloaded.

Shreevar Kheruka: So, the net revenue for Larah was INR 117 crores, as compared to 79 crores last year. I am talking about the nine months year-to-date. The EBITDA last year on that revenue of 79 crores was INR 8.5 crores, and the EBITDA this year is INR 20.8 crores, against 117 crores of revenue.

Prakash Kapadia: And at the net level, is there a loss or a breakeven figure?

Shreevar Kheruka: No. There is a loss of 1.4 crores at Hopewell in the nine months. That's principally driven by much higher interest and depreciation expenses.

Prakash Kapadia: Fine. Thank you, sir.

Moderator: Thank you sir. Last question comes from Mr. Rakesh Jain from Asit C. Mehta. Please go ahead.

Rakesh Jain: Sir, when you are saying that you would rather focus on the volume growth than value growth in the consumer segment, so can you just clarify on are you going to even expand geographically from the current status?

Shreevar Kheruka: Geographically, you mean, outside of India or do you mean within India?

Rakesh Jain: I think, you are more focused right now in the western and the northern parts more or less.

Shreevar Kheruka: We have very strong regional teams, which are all doing their bit, so we would like to be a pan India brand. I think, we are quite strong in North, East and West. West has done pretty well this year. South is a region where we continue to be a bit weak. And that's an area we wish to expand in. So, definitely, we will be focusing on South as a large potential market, which is relatively untapped for us.

Rakesh Jain: Okay. So, I mean, could you just break it down, I mean, what is the distribution right now in individual regions as on today?

Shreevar Kheruka: Sorry, I don't share that data.

Rakesh Jain: Okay, thanks.

Moderator: Thank you sir. Now I hand over the floor to Mr. Nirav for closing comments. Please go ahead sir.

Nirav: Hello sir. Thank you very much for the opportunity for hosting the call. Would you like to give some closing remarks?

Shreevar Kheruka: I think, we have had a pretty good year so far in terms of our revenue growth and I am pretty excited about a whole host of new products we are launching. Our strategy seems to be playing out, and I feel that that should continue. The market is supporting us. There are good tailwinds in our favor, so I am pretty positive about the coming few months and years. So, thanks for participating in the call and I will chat with you after the next quarter's board meeting.

Moderator: Thank you sir. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant evening.